Notes prepared for the Fourth Informal Thematic Session: "Contributions of migrants and diaspora to all dimensions of sustainable development, including remittances and portability of earned benefits"

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Introduction

The economic contributions of migrants to development can be leveraged and enhanced through strong frameworks and effective programmatic efforts. There are three aspects to consider in order to effectively implement such an approach.

First, it is important to have clarity in terms of the scope and depth of migrant economic engagement. Second, experts need to consider the pathways of success in light of development needs. Third, policymakers should craft a minimum set of programmatic efforts in the area of asset-building.

In the first case, migrants make economic contributions to sustainable development at all levels of the migration cycle. These economic contributions occur through their skills and the savings they represent for the businesses that hire them. They also occur through remittances, consumption of goods and services, philanthropy, investment, and knowledge transfer. Finally, they occur in the form of repatriated capital once they return. It is important to understand the scope and magnitude of these contributions as a starting point.

Second, these contributions and their leveraging opportunities will not be successful unless countries assess them in relationship to the drivers of migration and the problems of development these countries face.

Third, asset building should be at the core of programmatic efforts. Specifically, support to enable financial access and investments in human capital are important to consider. These approaches need to address development from a *deterritorialized* perspective in a way that looks at *transnational households* and *transnational networks*, giving priority to women.

Scope and Magnitude of Migrant Transnational Economic Engagement

While living abroad, migrant workers participate in many transnational economic activities with the homeland that set the basis for deep ties and impact in their societies. Those ties and impacts may create a space for intervention in economic development, particularly when government policies integrate such engagements. There are at least six linkages (see Table 1), which interact with the host and home country and a range of intermediary institutions that facilitate those links.

Depending on the region, between 70 and 95 percent of migrants send money back home to developing countries, constituting a flow upwards of US$500 billion annually.[1] Another 90% of migrants consume home country goods, amounting to US$1200 per migrant among those living in the United States.[2] A smaller share of migrants (less than 10%) also invest back home, and a similar share participate in

[1] Orozco, Manuel. *Migrant Remittances and Development in the Global Economy*. Boulder: Lynne Rienner, 2013. IFAD. *Sending Money Home: Contributing to the SDGs, one family at a time*. IFAD, 2017.

[2] Orozco, Manuel, *The Demand for and Supply of Nostalgic Products among the Albanian-Americans: A Survey Nostalgic trade*. Harvard University, CID, 2015. Orozco, Manuel and Julia Yansura, "Diaspora Investment and the Nostalgia Trade in Central America", in *Confronting the Challenges of Migration and Development in Central America*, 2016, Washington, DC, IAD.

philanthropic activities that involve donations.[3] These activities have influenced the economies of many developing countries, and in turn had a development impact. Family remittances have been central to that impact.

The table below presents these activities and their corresponding relationship to the areas of engagement. Typically, the two most substantive activities in which immigrants engage are consuming home country goods and sending money to their families. The scope and magnitude of these activities are important to understanding the extent to which countries are impacted.

Table 1: Migrant Economic Activities

Engagement Economic activity	Adult migrants participating	Host country	Intermediation	Home country
		Activity associated with		
Family remittances	60%-80% US$500 billion	The decision to remit a share of the workers' income	The work of remittance service providers	Effect of remittances on household economics for the recipient family
Nostalgia Trade	80%-90% US$200 billion	Consumption of home-country goods, including but not limited to foods	Supply chain of products and services	Production chain of home country goods
Philanthropy	10%-20% US$3 billion	Fundraising, donations for charitable causes in migrants' home towns	Method of donating	Funds received and projects implemented
Entrepreneur-ship	5%-10%	The decision to create or maintain a migrant owned business	The enabling environment to create a business	Creating a micro or small enterprise by an immigrant or family member in homeland
Investment	5%-10% US$50 billion	Capital for a particular investment or business venture	The investment environment	Allocating capital for a particular asset or venture in the hometown
Knowledge transfer	5%	Sharing Information and skills acquired as development tools	Institutions building skills or sharing knowledge	Methods to share information, knowledge and skills that enhance local and national development

Source: Orozco, Manuel. Migrant Remittances and Development in the Global Economy. Boulder: Lynne Rienner, 2013.

Frameworks for Leveraging Engagement

These activities are taking place in a transnational environment in which migrant households interact with home country households and communities. The linkages that the more than 200 million migrants establish with their homeland occur across over 200 million remittance recipient households.

In turn, these transnational family households and the intermediaries that participate in the transfers of money and goods create what are referred to as transnational corridors, where locations in home countries are connected to locations where migrants are living. At the center of these transnational linkages are women, in the sense that at least half are migrants, and over two thirds are the primary remittance recipient.[4]

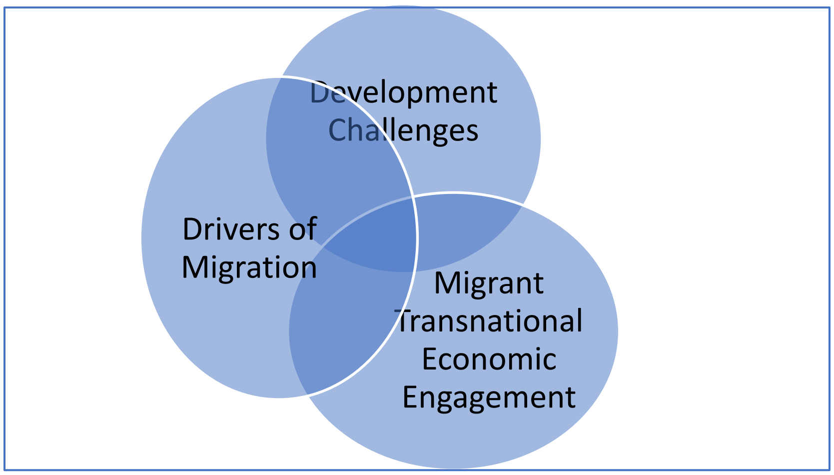
These migrant economic contributions need policy interventions in various respects. For example, remittance recipients lack financial access to formalize their savings, or producers lack enough access to credit to expand their business activities. Formalizing savings, for example, would increase the stock of

[3] Orozco, Manuel. MANUAL PARA ELABORAR PROYECTOS SOBRE REMESAS, 2015. Madrid, FIIAPP.
[4] Orozco, Manuel. Women and Financial Inclusion: Policy options and strategies for remittance service providers, 2017. Paper commissioned by UN Women, forthcoming.

resources to be mobilized in the local economy in the form of credit and financing, and in turn better leverage the productive base of the local economies.[5]

Thus, it is important that any policy intervention that leverages the transnational economic engagement be triangulated with the drivers that caused migration and with the fundamental development problems each migrant sending country faces. In turn, differentiated development strategies will capture the realities and the desired outcomes to be achieved.

Figure 1: Policy Frameworks for Leveraging Migrant Engagement



A first step in this triangulation process consists of identifying those countries where migrant impact and engagement is greatest. One way to do so is by looking at remittances as a percentage of the economy and remittance recipient households as a share of the total number of households. This approach will differentiate between those countries with greater or lower economic or population dependence on migration.

The approach also allows us to identify those countries where inflows are substantive and could be financially leverageable, or where households depend substantially on remittances in their day to day livelihoods. The following method was used to classify 126 developing countries for which remittances constitute at least 0.5% of national income.

A) *Income dependence on remittances:*
   a. *5% or more of GDP;*
   b. *3-5% of GDP;*
   c. *1-3% of GDP;*
B) *Household dependence on remittances*
   a. *Over 25% of households receive remittances;*
   b. *Between 10-25% of households receive remittances;*
   c. *5-10% of households receive remittances.*

[5] Orozco, Manuel. *Understanding Income, Remittances and Financial Access in Latin America and the Caribbean: the case of El Salvador*, Washington, DC, Inter-American Dialogue, Nov. 2016. See also IFAD. *Sending Money Home* 2017, Table 6, p.38.

Looking at developing countries, out of 126 developing countries that receive remittances, 26%, demonstrate a strong dependence, meaning that over 25% of households receive remittances and the flows constitute at least 5% of the country's GDP.

There is another group of countries that shows a combination of strong dependence in one aspect and less strong in another. Together they represent 50 countries or 40% of all nations where migration is more impactful.

These countries are the ones that will benefit from a strategic, immediate and robust development approach that integrates migration and migrants.

Table 2: Economic and Population Dependence on Migrants

Remittances Share of GDP	Remittance recipient households				Total
	Under 5% of households receive remittances	Between 5% and 10%	Between 10% and 25% of households	Over 25% of households receive remittances	
Under 1%	21.4%	0.8%	1.6%		23.8%
Between 1 and 3%	9.5%	0.8%	9.5%	4.0%	23.8%
Between 3 and 5%	3.2%	2.4%	4.8%	**4.0%**	14.3%
Over 5%	0.8%	1.6%	**9.5%**	**26.2%**	38.1%
Total	34.9%	5.6%	25.4%	34.1%	100.0%

Heavily dependent countries: Albania; Armenia; Bosnia and Herzegovina; Cape Verde; Dominican Republic; Egypt.; El Salvador; Fiji; Georgia; Ghana; Guatemala; Guyana; Haiti; Honduras; Jamaica; Jordan; Kosovo; Kyrgyz Republic; Latvia; Lebanon; Micronesia; Moldova; Montenegro; Morocco; Nepal; Nicaragua; Philippines; Samoa; Serbia; Sri Lanka; Tajikistan; Tonga and Tuvalu. **Other substantially dependent countries**: Lesotho; Comoros; Vietnam; Bangladesh; Yemen, Rep.; Grenada; Pakistan; Senegal; Belize; Kiribati; Liberia; Croatia; Gambia, The; Sao Tome and Principe; Lithuania; Dominica; Ukraine.

These countries show important development challenges, and share some important characteristics. One of the most important relates to countries that exhibit economic models with mostly labor-intensive activities based on agriculture or low value-added resources, shaped by strong informal economies. They are also countries that exhibit state fragility and an unskilled labor force.

The table below examines some of these characteristics. For the most part, these countries are classified as low performing (with some like Haiti, being dangerously low performing). These are also economies that exhibit decreasing labor productivity among the more remittance dependence country and greater dependence in agriculture.

Table 3: Characteristics of Fragile States

	Fragile States Index (Score Average)	**Agriculture As % of GDP**	**Labor Productivity**	**Trade as % of GDP**	**Rural share of pop.**
Not remittance dependent	50	5	50,864	0.35	20
Under 1% of GDP	70	13	12,615	0.37	48
Between 1 and 3% of GDP	74	17	10,875	0.44	50
Between 3 and 5% of GDP	66	16	8,331	0.45	53
Over 5% of GDP	70	16	7,463	0.36	51

Source: World Bank (agriculture, labor force, rural population and foreign trade indicators); The Fragile State Index uses a score that ranges from 120 to 10 and countries are classified as dangerously fragile (over 100), fragile (80-99), weak performing (60-80), performing above average (37-60), better performing (under 36). Fragile states: Fragile States Index, Fund for Peace, 2016.

Moreover, the countries with high emigration and dependence are economies whose migration was spurred by key drivers, some of which are at the core of underdevelopment, including poorly performing economies, insecurity and, in some cases, natural disasters. However, transnational linkages and the demand for foreign labor are also key factors explaining migration. The drivers of migration associated with economic development problems create the conditions for sustained migration.[6] In places where low productivity exists but no demand for foreign labor or transnational family linkages are present, migration will more likely be minimal, for example.

Therefore, is important to triangulate the economic contributions of migrants with the drivers of migration and the development challenges. This approach should be accompanied by an organized institutional effort that **establishes** advisory commissions that lay out an agenda. This will include setting a minimum set of programs accompanied with expected results, expected development impact, an operational framework, a workplan of strategic intervention, and partners as relevant stakeholders (financial sector, government, donors, diaspora, and other private sector).

From a development policy perspective, a scalable strategy that integrates the SDG goals would include at a minimum a programmatic approach for goals 4, 5, 8, and 10.

Figure 2: Sustainable Development Goals

Number	Goal
1	End poverty in all its forms everywhere
2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3	Ensure healthy lives and promote well-being for all at all ages
4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5	Achieve gender equality and empower all women and girls
6	Ensure availability and sustainable management of water and sanitation for all
7	Ensure access to affordable, reliable, sustainable and modern energy for all
8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
10	Reduce inequality within and among countries
11	Make cities and human settlements inclusive, safe, resilient and sustainable
12	Ensure sustainable consumption and production patterns
13	Take urgent action to combat climate change and its impacts
14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

A Development Approach to Leverage on Migrants' Economic Impacts

Integrating the economic contributions of migrants requires looking at strategies for asset building – particularly savings formalization and mobilization (through financial education and credit) and

[6] See for example, Orozco, Manuel and Julia Yansura, *Centro America en la Mira: la migración en su relación con el desarrollo*, Teseo, 2016.

investments in education. Migrant investments, donations, and remittances can be leveraged to build both human and economic capital in those more migration-dependent countries.

There is an important remittance and migration related value chain associated with savings: its formalization, and the opportunities it offers for asset-building.[7]

This approach is fundamentally important because it addresses various strategic needs. First, it integrates migrant capital investment and savings from remittances into the financial sector, further mobilizing these resources for local development in education, skill formation and (nostalgic) trade. Second, this strategy expands and complements—that is, does not replace—existing approaches to economic growth, and creates a new model for much-needed investments in services for the global economy.

Making investments in savings and education as a business strategy will lead to an expansion of opportunities to work and compete in the knowledge economy.[8] The significance of the knowledge economy is threefold. First, it is the most important source of economic wealth, generating more value and complexity with less manpower through greater use of technology. Second, it provides people with the necessary skills to adapt to a rapidly-changing and competitive global environment. Third, life in the knowledge economy empowers human capital to further transform society by providing people with agency and decision-making opportunities.

This approach does not compromise existing investments in agriculture but it expands credit to new sectors—such as education and skill formation—for which no substantive financing has existed before.[9]

Demonstrated Impacts and Proven Strategies: Guatemala

The approach proposed is currently in place and yielding successful results in Guatemala. The program "Opportunities for my Community," [10] has demonstrated a strong development impact. The initiative focuses on financial inclusion, investment, and education.

- Financial education is one of the four pillars of the program to build both wealth and knowledge in the chosen communities in the Western Highlands. To date, more than 40,000 people have received financial education and 8,000 of them have formalized their savings, amounting to over US$2 million in deposits.

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[7] See for example, Chapter 6, Orozco, Manuel. *Migrant Remittances and Development in the Global Economy*. Boulder: Lynne Rienner, 2013.

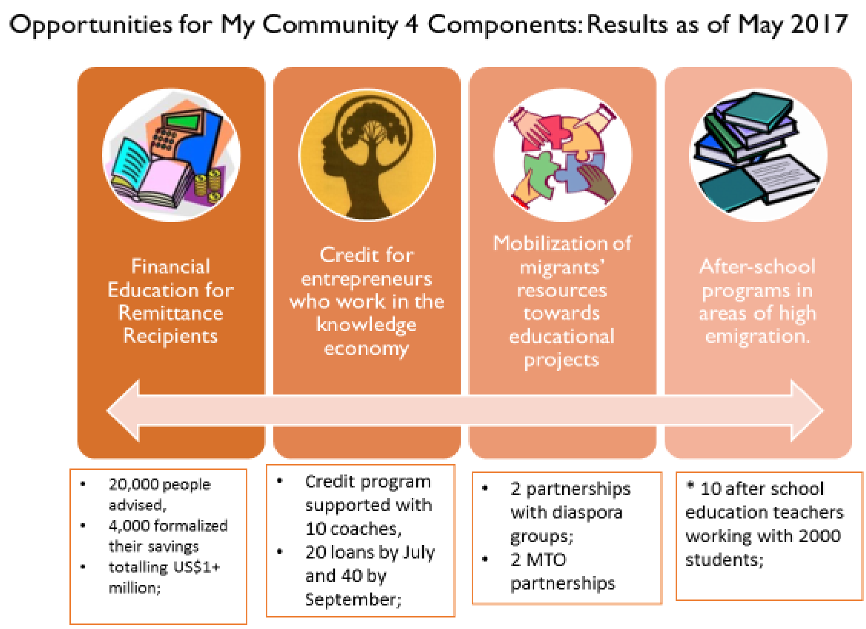
[8] A knowledge-based economy is one formed around an ecosystem of human capital, including knowledge, education, cognitive skills, innovation, and modern social norms. It draws on technological and social networks to create both tangible and intangible value. As such, the knowledge economy depends on the ability and capacity of people to learn and adapt new cognitive skills, techniques, values, and intellectual understanding as they respond to the demands of the global economy (portability, productivity and flexibility).

[9] Financing for education is typically only available for college education in private universities. However, financing education is key to economic growth and development.

[10] http://www.thedialogue.org/agenda/programs/opportunities-for-my-community/

- Moreover, a share of those savings is mobilized into credit, offering financing to a new network of entrepreneurs in the knowledge economy. The program is providing ‘knowledge’ entrepreneurs with coaching and technical advice, encouraging businesses to re-think how they can engage with information and technology.[11]
- The diaspora component has established partnerships with Guatemalan migrant associations and money transfer companies in the areas of education and special education.
- In after-school education, the program is developing skills in reading comprehension, applied mathematics, and entrepreneurship among youth ages 10 to 15 years old with more than 2,000 students enrolled.

Figure 3: Results of Opportunities for My Community Project



[11] There are four sectors where the knowledge economy is present and in need of financing in Central America: *Skills to build human capital*: (Pedagogical and technical formation in science, technology, engineering, mathematics, and other disciplines. Soft skills (communication, inter personal relations, general knowledge).
Languages (English, others); *Information services* (marketing intelligence and decision-making; Knowledge of the commercial, social, and cultural ecosystem; Production and nurturing of data; Use of data management systems);
Technology Services (Repair and maintenance of technological equipment; Development of intelligence systems, software and system maintenance); *Development of new knowledge* (Techniques and strategies of commercial operation; Personal and commercial use of social media; Entrepreneurial innovation and risks).